

Message Text

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ACTION SP-02

INFO OCT-01 AF-10 EB-08 HA-05 OES-09 L-03 SS-15 INR-10

ISO-00 /063 W

-----092951 112238Z /15

P 111615Z JUL 78

FM AMEMBASSY KINSHASA

TO SECSTATE WASHDC PRIORITY 830

INFO AMCONSL LUBUMBASHI

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E.O. 11652: N/A

TAGS: ECON, CG

SUBJECT: US ECONOMIC POLICY TOWARD AFRICA

REF: STATE 164983

1. ZAIRE POSES ONE OF THE BIGGEST PROBLEMS FOR DEVELOPMENT IN AFRICA. IT WOULD BE DIFFICULT TO FIND A COUNTRY THAT SUFFERS MORE FROM INADEQUATE TRANSPORTATION: COMMUNICATIONS, OVERRELIANCE ON A SINGLE COMMODITY EXPORT --COPPER -- AND A PAUCITY OF SKILLED WORKERS, NOT TO MENTION ABLE MANAGERS. THE MOBUTU PLAN FOR ECONOMIC RECOVERY RECOGNIZES THE DEPENDENCE OF AGRICULTURAL DEVELOPMENT ON RENOVATION AND EXPANSION OF ZAIRE'S TRANSPORTATION SYSTEM AND WOULD THUS GIVE BOTH TOP FINANCING PRIORITY. THE PLAN ALSO RECOGNIZES THE NEED FOR MAJOR IMPROVEMENT IN GOVERNMENT MANAGEMENT OF THE ECONOMY AS

WELL AS SPECIFIC ECONOMIC REFORMS. THE PRINCIPAL DONOR COUNTRIES WHICH MET IN BRUSSELS IN JUNE TO DISCUSS EMERGENCY ASSISTANCE TO ZAIRE ARE SCHEDULED TO MEET AGAIN IN OCTOBER TO DISCUSS SPECIFIC DEVELOPMENT ASSISTANCE. AN IBRD CONSULTATIVE GROUP MEETING IS TO FOLLOW IN DECEMBER. IN BOTH CASES, HOWEVER, ASSISTANCE IS BEING LINKED TO REFORM AND ZAIRE'S COMPLIANCE WITH
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A NEW IMF STANDBY AGREEMENT. A DISCUSSION OF THE IDEAS PUT FORWARD REFTEL AS POSSIBLE RESPONSES TO ZAIRE'S PROBLEMS FOLLOWS:

2. INFRASTRUCTURE: ZAIRE HAS TRADITIONALLY SUFFERED FROM AN INEFFICIENT TRANSPORTATION SYSTEM THAT HAS BEEN A MAJOR OBSTACLE TO BOTH ECONOMIC AND POLITICAL INTEGRATION. FOR EXAMPLE, IT TAKES A MINIMUM OF 20 TO 25 DAYS TO SHIP COPPER FROM THE SHABA REFINERIES

TO THE PORT OF MATADI ON THE "VOIE NATIONALE", A DISTANCE OF 2500 KILOMETERS. ALTERNATIVE ROUTES THROUGH OTHER COUNTRIES HAVE EITHER BEEN CLOSED OR RISK BEING CLOSED IN THE FUTURE. ZAIRE'S NATIONAL TRANSPORT OFFICE, ONATRA, AND NATIONAL RAILWAY COMPANY, SNCZ, TOGETHER FORM THE "VOIE NATIONALE" NETWORK. ALTHOUGH THE INTRODUCTION OF EXPERIENCED EXPATRIATE MANAGEMENT IN 1977 HAS IMPROVED THEIR MANAGEMENT, BOTH CONTINUE TO HAVE MAJOR DIFFICULTIES. ONATRA'S OPERATIONAL CAPACITY HAS STEADILY DECLINED SINCE 1974; PILFERAGE HAS BECOM ENDEMIC, CAUSING THE COMPANY TO LOSE APPROXIMATELY 30 PER CENT OF ITS RIVER TRAFFIC TO SMALL, PRIVATE FIRMS. ZAIRE'S ROAD SYSTEM, WHICH WAS ORIGINALLY DESIGNED AS A FEEDER SYSTEM FOR THE "VOIE NATIONALE", INCLUDES ONLY 2000 KILOMETERS OF PAVED ROAD OUT OF 145,000 KILOMETERS. MOREOVER, WITH THE RECESSION AND ATTENDANT SPARE PARTS SHORTAGE, ZAIRE'S TRUCK/CAR POPULATION HAS STEADILY DECLINED, ALONG WITH AVAILABLE FUEL SUPPLIES. A MAJOR NEW INTERNATIONAL AIRPORT WAS RECENTLY OPENED AT GOMA AND ANOTHER WILL OPEN EVENTUALLY IN KISANGI, BUT LACK OF SPARE PARTS AND PROPER MAINTENANCE, AS WELL AS SHORTAGES OF AVIATION FUEL IN THE INTERIOR, PREVENT ZAIRE FROM TAKING FULL ADVANTAGE OF AIR LINKS AMONG REGIONS.

3. THE IBRD HAS FOR SOME TIME RECOGNIZED THE IMPORTANCE OF INFRASTRUCTURE PROJECTS IN ZAIRE'S OVERALL DEVELOPMENT PROGRAM, AND WE BELIEVE A GREATER US EFFORT IN THIS AREA IS WARRANTED AND CONSISTENT WITH EXISTING AID PROJECTS. THE CURRENT IBRD PROGRAM GIVES ZAIRE'S TRANSPORTATION SECTOR TOP PRIORITY; HOWEVER, IT HAS EMPHASIZED LESS NEW INFRASTRUCTURE INVESTMENT AND MORE MAINTENANCE AND IMPROVEMENT LIMITED OFFICIAL USE

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OF EXISTING TRANSPORTATION FACILITIES TO ACHIEVE GREATER CAPACITY UTILIZATION. AT THE SAME TIME THE BANK RECOGNIZES THAT ANY FUTURE INVESTMENT IN MINING AND MANUFACTURING WILL REQUIRE COMPLEMENTARY INVESTMENT IN TRANSPORTATION. MOREOVER, DURING THE MARCH MEETING OF THE IBRD CONSULTATIVE GROUP ON AGRICULTURE IN KINSHASA, DONOR COUNTRIES WERE IN UNANIMOUS AGREEMENT THAT ZAIRE'S AGRICULTURAL REHABILITATION AND DEVELOPMENT WOULD DEPEND CLOSELY ON IMPROVEMENTS IN THE TRANSPORTATION NETWORK, ROLLING STOCK, AND FUEL SUPPLIES. IT WAS GENERALLY AGREED THAT ZAIRE PRODUCES ENOUGH FOOD TO FEED ITS POPULATION BUT CANNOT GET THE FOOD FROM THE COUNTRYSIDE TO URBAN MARKETS. CONSEQUENTLY, SOME FARMERS ARE LEAVING CASH CROPS AND RETURNING TO SUBSISTENCE FARMING. AID'S NORTH SHABA INTEGRATED MAIZE PROJECT HAS ALSO RECOGNIZED THE LINK AND INCORPORATED ROAD IMPROVEMENTS ALONG WITH THE EFFORT TO INCREASE FOOD PRODUCTION. AID'S PROJECTED AGRICULTURAL SECTOR MARKETING LOAN IS DESIGNED TO HELP COPE WITH THE TRANSPORT SIDE OF THE MARKETING PROBLEM AS WELL, PROVIDING SOME SPARE PARTS AND RAW MATERIALS FOR VEHICLES TO MOVE AGRICULTURAL PRODUCTS.

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ACTION SP-02

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ISO-00 /063 W

-----093681 112244Z /15

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4. EXPORT CONCENTRATION: ALTHOUGH ZAIRE EXPORTS A WIDE RANGE OF PRIMARY PRODUCTS, BOTH AGRICULTURAL AND MINERAL, IT IS HEAVILY DEPENDENT ON COPPER, WHICH IN 1977 OFFICIALLY ACCOUNTED FOR 40 PER CENT OF THE VALUE OF ZAIRE'S EXPORTS. COMMODITY DIVERSIFICATION IS NOT SOMETHING, HOWEVER, THAT NEEDS TO BE SPECIFICALLY ENCOURAGED; THE INTEREST IS ALREADY THERE. PROJECTS SUCH AS THOSE RECENTLY UNDERTAKEN TO STEP UP DECLINING PALM OIL AND COTTON PRODUCTION, ALTHOUGH NOT SPECIFICALLY FOR EXPORT AT THIS POINT, ARE NONETHELESS MOVES FORWARD IN TRADITIONAL ZAIRIAN EXPORT SECTORS. LIKE TEA, COFFEE, QUININE, AND ALMOST ALL OTHER EXPORT PRODUCTS, THE LACK OF A STEADY FLOW OF FOREIGN EXCHANGE TO PROVIDE MACHINERY, FERTILIZER, AND FUEL HAS PROVED AS MUCH IF NOT MORE A HINDRANCE THAN THE LACK OF ADEQUATE TRANSPORTATION TO MARKET THE CROPS. ONE WAY TO PROVIDE A RELIABLE SOURCE OF FOREIGN EXCHANGE, NOT ONLY TO ENCOURAGE AGRICULTURAL DIVERSIFICATION AND PRODUCTION, BUT TO STRENGTHEN THE ECONOMY AS A WHOLE, WOULD BE SMOOTHING THE FLUCTUATIONS IN THE COPPER EARNINGS CYCLE THROUGH ESTABLISHMENT OF A COPPER AGREEMENT AND BUFFER STOCK. DURING THE RECENT CIPEC MEETING IN KINSHASA THIS POINT WAS MADE BY A NUMBER OF PRODUCERS, AND THE SPOILER ROLE WHICH THEY PERCEIVE THE US TO BE PLAYING WAS ACTIVELY CRITICIZED. ZAIRE HAS ALREADY SHOWN ITSELF A WILLING SIGNATORY, IF SOMEWHAT IN PLACE FOR COFFEE AND TIN. WHILE THERE MIGHT BE A NET EARNINGS

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LOSS TO ZAIRE OVER THE MEDIUM TERM AS A RESULT OF AN AGREEMENT TO STABILIZE COPPER PRICES, THE PSYCHOLOGICAL AND BUDGETARY IMPACT OF A FAIRLY STEADY AND PREDICTABLE STREAM OF REVENUE MAKES A PERSUASIVE

COUNTER-ARGUMENT. STABEX TYPE SCHEMES, WHILE USEFUL, ARE ONLY SHORT TERM MEASURES, AND IN THE ZAIRIAN CONTEXT MAY WELL BE COUNTERPRODUCTIVE

AS THEY TOO EASILY BECOME A CRUTCH AND A SUBSTITUTE FOR IMPROVED FOREIGN EXCHANGE MANAGEMENT.

5. THE SAME HOLDS TRUE FOR BALANCE OF PAYMENTS ASSISTANCE THROUGH PL-480 OR SSA. IN ORDER TO BENEFIT ZAIRE IN ANY LASTING MANNER THEY NEED TO BE INTEGRATED INTO PLANS TO IMPROVE ZAIRE'S MANAGEMENT OF THE

ENTIRE ECONOMY OVER THE LONGER TERM. NEVERTHELESS, PROGRAMS AIMED AT SHORT-TERM BALANCE OF PAYMENTS ASSISTANCE REMAIN IMPORTANT. FOR EXAMPLE, PAST CIP LOANS HAVE BEEN CHanneLED TO PROVIDE A SIGNIFICANTLY

BENEFICIAL IMPACT ON EMPLOYMENT AND THE ECONOMY. THEY ARE EASY TO ADMINISTER, QUICK TO DISBURSE AND DISBURSEMENT CAN BE CONTROLLED TO MINIMIZE OPPORTUNITIES FOR BRIBERY. MOREOVER, THE CIP LOANS OF 1976-77 HAD OBVIOUS HUMANITARIAN BENEFITS AS WELL. THOUGH SMALL IN SIZE (\$10 MILLION IN FY 1976 AND \$16.6. MILLION IN FY 1977),

CIP LOANS KEPT A SUBSTANTIAL NUMBER OF ZAIRIANS EMPLOYED WHILE ENCOURAGING ZAIRIAN AGRICULTURAL PRODUCTION AND IMPROVING TRANSPORT SERVICES. FOR INSTANCE, UNDER THE FY-1977 CIP LOAN THE GOODYEAR TIRE FACTORY IN KINSHASA, WHICH EMPLOYS 560 ZAIRIANS, WAS ALLOCATED \$1.6 MILLION, TO COVER THE PLANT'S IMPORT NEEDS FOR SIX MONTHS. THE PLANT PRODUCES 800 TIES PER DAY, WHICH WOULD OTHERWISE HAVE HAD TO BE IMPORTED. SIMILARLY, THE GENERAL MOTORS ASSEMBLY PLANT WAS ALLOCATED \$1.2 MILLION TO IMPORT COMPONENTS FOR A FLEET OF LIMITED OFFICIAL USE

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PICK-UP TRUCKS. THE ARRIVAL OF THESE COMPONENTS ALLOWED THE FACTORY TO RESTART OPERATIONS AFTER A TWO-MONTH HIATUS, PROVIDING EMPLOYMENT FOR SOME 280 INDIVIDUALS. PRODUCTION AT BOTH LOCAL PLANTS ALSO RESULTED IN CONSIDERABLE FOREIGN EXCHANGE SAVINGS.

6. MARKETS: WHILE ZAIRE CERTAINLY IS A SUFFICIENTLY LARGE COUNTRY TO PROVIDE ADEQUATE INTERNAL MARKETS AND COST EFFICIENT TRANSPORT AND POWER SYSTEMS, POSSIBLE LINKS WITH NEIGHBORING COUNTRIES, SUCH AS RWANDA AND BURUNDI, SHOULD NOT BE IGNORED. US ASSISTANCE TO CEPGL-SPONSORED TRANSPORTATION PROJECTS MAY BE ONE OF THE MOST EFFECTIVE WAYS OF IMPROVING ECONOMIC CONDITIONS IN KIVU AND OTHER BORDER AREAS THOUGH THEIR IMPACT UPON THE OVER-ALL ECONOMY MAY BE RELATIVELY SMALL.

7. MANPOWER SHORTAGES: ZAIRE SUFFERS FROM AN ACUTE SHORTAGE OF TECHNICALLY TRAINED PEOPLE THAT CAN BE ONLY PARTIALLY ALLEVIATED BY EXPATRIATE PERSONNEL. EXPATRIATES PROVIDE THE PRINCIPAL ENGINEERS AND MAINTENANCE PERSONNEL IN THE CRUCIAL MINING SECTOR,

FOR EXAMPLE, AND HOLD IMPORTANT MANGERIAL POSITIONS IN ZAIRE'S MAJOR PARASTATAL COMPANIES. MOREOVER, THE BANK OF ZAIRE, DEPARTMENT OF FINANCE AND CUSTOMS WILL SOON RECEIVE A FRESH INJECTION OF IMF, FRENCH, AND BELGIAN EXPATRIATE TECHNICIANS. EVEN SO, ZAIRIAN MANAGERIAL AND TECHNICAL TALENT IS IN SHORT SUPPLY, AND ZAIRE WOULD BENEFIT FROM INCREASED ASSISTANCE IN SUPPORT OF AFRICAN TRAINING AND EDUCATION. THIS IS TO AN EXTENT ALREADY PART OF THE EXISTING AID PROGRAM BUT COULD BE EXPANDED FURTHER. THE WORLD BANK AND AFRICAN DEVELOPMENT BANKS WOULD PROVIDE THE OTHER LOGICAL FRAMEWORK FOR TRAINING PROGRAMS. THEY ARE ALSO BETTER ORGANIZED TO SPONSOR THE TECHNICAL ASSISTANCE TEAMS ZAIRE MIGHT REQUIRE. A PURELY US TRAINING TEAM WOULD PROBABLY FACE LANGUAGE BARRIERS AND WOULD RISK CREATING POLITICAL SIDE EFFECTS THAT COULD BE AVOIDED UNDER THE MULTILATERAL UMBRELLA. ON THE OTHER HAND, THE US WOULD BE UNIQUELY QUALIFIED TO TRAIN ZAIRIANS IN THE MANGERIAL SCIENCES EITHER THROUGH EDUCATIONAL GRANTS FOR STUDY IN THE US OR THROUGH A LOCAL PROGRAM SPECIFICALLY DESIGNED TO MEET ZAIRE'S NEEDS.

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Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC PROGRAMS, FOREIGN ASSISTANCE PROGRAMS
Control Number: n/a
Copy: SINGLE
Draft Date: 11 jul 1978
Decaption Date: 20 Mar 2014
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978KINSHA07207
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780284-0459
Format: TEL
From: KINSHASA
Handling Restrictions:
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780775/aaaacleu.tel
Line Count: 248
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 45fece77-c288-dd11-92da-001cc4696bcc
Office: ACTION SP
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: STADIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: STADIS
Reference: 78 STATE 164983
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 26 apr 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2054709
Secure: OPEN
Status: NATIVE
Subject: US ECONOMIC POLICY TOWARD AFRICA
TAGS: ECON, EAID, CG, IS
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/45fece77-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014